

International comparison of insurance taxation

South Africa

General insurance – overview

Definition	Accounting	Taxation
Definition of property and casualty insurance company	Company registered under the Short Term Insurance Act, 1998.	Any short-term insurance business as defined in the Short Term Insurance Act, 1998.
Commercial accounts/ tax and regulatory returns	Accounting	Taxation
Basis for the company's commercial accounts	International Financial Reporting Standard (IFRS) is basis as determined by the Companies Act, 2008.	N/A.
Regulatory return	Separate return issued by the Financial Services Board (FSB).	N/A.
Tax return	N/A.	A tax return (IT14) must be filed annually.
Technical reserves/ equalisation reserves	Accounting	Taxation
Unearned premiums reserve (UPR)	Premium revenue is recognised evenly over the period of the policy or in accordance with the pattern of the incidence of risk where the result is materially different.	The tax treatment is in line with the accounting treatment, subject to the Commissioner's discretion.
Unpaid claims reported	Measured as the expected ultimate cost of settlement of all claims.	The tax treatment is in line with the accounting treatment, subject to the Commissioner's discretion.
Claims incurred but not reported (IBNR)	Calculated based on experience or statistical method.	The tax treatment is in line with the accounting treatment, subject to the Commissioner's discretion.
Unexpired risks	In calculating the expected value of future claims in relation to unexpired periods of risk on policies in force at balance sheet date, the future investment return on investments supporting the unearned premium provision, net of deferred acquisition cost and the unexpired risk provision may be taken into account.	The tax treatment is in line with the accounting treatment, subject to the Commissioner's discretion.
General contingency/ solvency reserves	Set in terms of the short-term insurance legislation and accounted for in equity.	This is not tax-deductible.
Equalisation reserves	Not allowed in terms of accounting standards.	This is not tax-deductible.
Expenses/ refunds	Accounting	Taxation
Acquisition expenses	Commissions are recognised over the period of policy and all other acquisition costs are expensed.	Expenses linked to the business of insurance are tax-deductible when incurred.
Loss adjustment expenses on unsettled claims (claims handling expenses)	Provided by reference to IBNR and outstanding claims.	Expenses linked to the business of insurance are tax-deductible when incurred.
Experience-rated refunds	Provided for based on the expected obligation.	This is included in gross income (and hence taxable) when earned.

South Africa: General insurance – overview (continued)

Investments	Accounting	Taxation
Gains and losses on investments	Treatment determined by IFRS.	Gains on investments held in a capital account are subject to 14% capital gains tax.
Investment reserves	Treatment determined by IFRS.	Unrealised gains (or unrealised losses) are not taxable (or deductible).
Investment income	Treatment determined by IFRS.	Investment income, including gains on assets held in a revenue account, form part of gross income and are subject to tax at 28%. Local dividends are tax-exempt. The general principle is that foreign dividends are subject to income tax at 28%; however, under certain circumstances it may be exempted.
Reinsurance	Accounting	Taxation
Reinsurance premiums and claims	Premiums paid/ payable are recognised as an outward reinsurance premium expense in the financial period in which it was incurred. Claims recoveries are recognised as revenue in the financial period in which it was earned.	Reinsurance premiums are tax-deductible and reinsurance recoveries are taxable.
Mutual companies	Accounting	Taxation
Mutual companies (all profits returned to members)	No special treatment.	No special treatment.

General insurance – other tax features

Further corporate tax features	Taxation
Loss carry-overs	Losses from previous years can be set off against taxable income.
Foreign branch income	South African companies are taxed on their worldwide income, subject to any DTA (double taxation agreements) relief or foreign tax credits.
Domestic branch income	The tax rate for a branch is 33%.
Corporate tax rate	28%
Other tax features	Taxation
Premium taxes	Not applicable in South Africa.
Capital taxes and taxes on securities	Capital gains are taxed at an effective rate of 14%. Capital losses can only be set off against capital gains.
Captive insurance companies	There are no special tax rules governing captives.
Value added tax (VAT)	VAT is levied at 14%.

South Africa: Life insurance – overview

Definition	Accounting	Taxation
Definition of life insurance companies	Company registered under the Long-Term Insurance Act, 1998.	Companies carrying on long-term insurance business as defined in Long-Term Insurance Act, 1998.
Commercial accounts/ tax and regulatory returns	Accounting	Taxation
Basis for the company's commercial accounts	IFRS is basis as determined by the Companies Act, 2008.	N/A.
Regulatory return	Prescribed by separate regulations issued by Registrar of financial institutions.	N/A.
Tax return	N/A.	A tax return (IT14L) must be filed annually
General approach to calculation of income	Accounting	Taxation
Allocation of income between shareholders and policyholders	Single reporting entity for accounting purposes.	For tax purposes, income is allocated between the Individual Policyholder Fund (IPF), the Untaxed Policyholder Fund (UPF), the Company Policyholder Fund (CPF) and the Corporate Fund (CF).
Calculation of investment return	Accounting	Taxation
Calculation of investment income and capital gains	Treatment determined by IFRS.	The Income Tax Act stipulates methods to calculate investment income and capital gains.
Calculation of investment income and capital gains	Accounting	Taxation
Actuarial reserves	Insurance contracts as defined in IFRS are valued in terms of the Financial Soundness Valuation as prescribed in Professional Guidance Note (PGN) 104. Investment contracts in terms of IAS 39.	The statutory valuation method (best estimates, first and second tier margins as calculated by the actuary).
Acquisition expenses	Expensed for insurance contracts. Treatment determined by IAS 39 and IAS 18 for investment contracts.	Expenses linked to the insurance business are tax-deductible. The act stipulates a formula that must be used to calculate the deductible portion of selling and other expenses.
Gains and losses on investments	Treatment determined by IAS 39.	Gains on investments held in a capital account are subject to capital gains tax at 14% for the CF and CPF, 0% for the UPF, and 7.5% for the IPF.
Reserves against market losses on investments	Treatment determined by IAS 39.	Unrealised gains (or unrealised losses) are not taxable (or deductible).
Dividend income	Treatment determined by IAS 39.	Foreign dividends are subject to income tax at the corporate tax rate; exemptions may apply. Local dividends are tax-exempt.
Policyholder bonuses	Computed through the actuarial valuation in terms of PGN 104.	Not deductible, but usually taken into account in the calculation of the actuarial reserves.
Other special deductions	N/A.	A portion of the taxable transfers from policyholder funds to the corporate fund may be deductible.

South Africa: Life insurance – overview (continued)

Reinsurance	Accounting	Taxation
Reinsurance premiums and claims	Premiums paid/ payable are recognised as an outward reinsurance premium expense in the financial period it incurred. Claims recoveries are recognised as revenue in the period it was earned.	Reinsurance premiums not deductible and reinsurance claims not taxable.
Mutual companies/ stock companies	Accounting	Taxation
Mutual Companies	No special rules.	No special rules.

South Africa: Life insurance – other tax features

Further corporate tax features	Taxation
Loss carry-overs	Losses from previous years can be set off against taxable income.
Foreign branch income	South African companies are taxed on their worldwide income, subject to any DTA relief or foreign tax credits.
Domestic branch income	It is not possible for a life insurer to operate as a branch in South Africa.
Corporate tax rate	The Corporate tax rates are as follows: <ul style="list-style-type: none"> • Individual Policyholder Fund 30%; • Untaxed Policyholder Fund 0%; • Company Policyholder Fund 28%; • Corporate Fund 28%.
Policyholder taxation	Taxation
Deductibility of premiums	Different rules govern the deductibility of insurance premiums for different types of policies (e.g. keyman policy). In general premiums are not deductible by the policyholder.
Interest build-up	The policyholder is not taxed. (Tax already paid by life insurer at 30% in the IPF).
Proceeds during lifetime	The proceeds are not taxable, provided that the beneficiary is the original beneficial owner of the policy.
Proceeds on death	The proceeds are not taxable, provided the deceased is the original beneficial owner.
Other tax features	Taxation
Premium taxes	N/A.
Capital taxes and taxes on securities	The capital gains tax rates are as follows: <ul style="list-style-type: none"> • Individual Policyholder Fund 7.5%; • Untaxed Policyholder Fund 0%; • Company Policyholder Fund 14%; • Corporate Fund 14%. <p>The capital losses can only be set off against capital gains.</p>
Captive insurance companies	There are no special tax rules governing captives.
Value added tax (VAT)	VAT is levied at 14% on certain fees and commissions.

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